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## On track for post-COVID world

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| **Company/ASX Code** | Scentre Group/SCG |
| **AGM date** | Thursday 7 April 2022 |
| **Time and location** | 10am (Sydney time) Wesley Conference Centre 220 Pitt St Sydney |
| **Registry** | Computershare |
| **Webcast** | Yes |
| **Poll or show of hands** | Poll on all items |
| **Monitor** | Sue Howes assisted by Mary Fifita |
| **Pre AGM Meeting?** | With Chair Brian Schwartz, NED Andrew Harmos, CEO Peter Allen, CFO Elliott Rusanov and Company Secretary Maureen McGrath |

Please note any potential conflict as follows: The individuals (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

We applaud the company's decision to hold the meeting in hybrid format, thereby giving retail shareholders optimum access.

**Summary of issues for meeting**

The main issues consist of the continuing effects of the pandemic, and the associated consequences for revenue and share price, and the election of Ms Brenner to the Board.

The ongoing lockdowns have continued to depress customer visits and revenue, however the company has seen a bounce back to pre-covid levels since restrictions were lifted. Compliance with the rental industry code of conduct has resulted in continuing Expected Credit Charge affecting results, albeit to a lesser extent than the previous financial year.

Ms Brenner was Chair of the AMP Capital Board during the apex of the company's issues. Careful consideration needs to be given to the accountability taken for and lessons learned from this experience.

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| **Item 1** | **Consideration of accounts and reports** |
| **ASA Vote** | No vote required |

**Summary of ASA Position**

**<u>Financial performance</u>**

Shareholders have seen improved performance in both dividends and share price over the year resulting in a TSR of 18.81% (FY20 -25.59%).

Lockdowns and rental code of conduct restrictions have continued to weigh heavily on revenue, however, there is reason to expect better performance in the future given:

- Rental leases with terms generally 5 years and annual rental escalations of CPI + 2% for all states excluding Victoria. Victoria has fixed 4-5% increases.
- Occupancy rates (98.5%) remain high and have increased
- Traffic and dwell times have increased since the December lockdowns ended
- February result pleasing with March trending well and more in line with pre-pandemic levels.

Asset valuations also affect share price, which generally trades at a discount to NTA. Our discussion with the company last year indicated the view that valuations would rebound over the year following the end of the then lockdown. The imposition of further lockdowns, for longer periods of time this year, has led to these valuations not rebounding as expected. It is likely to take time for this to work through given the conservativism of property valuers given the ongoing lockdown situation.

**Future growth focus**

Scentre Group are focusing on increasing and improving the experiential experience for shoppers and ensuring they become an essential part of people, community and businesses daily experiences.

The business is allocating more funding towards activities and events that enhance the experience for all age ranges with the aim of being a destination location. Some of these activities include partnering with tenants to create experiences, for example, the CEO mentioned Rebel Sports running a basketball course or game in courts near a shopping centre. Furthermore, developments such as the Mt. Druitt centre upgrades will include a new rooftop lifestyle precinct for the local community.

## Key Board or senior management changes

There has been significant movement this year.

CEO Peter Allen has announced his retirement plans and will continue with the company to ensure a smooth hand over to the new CEO.

After conducting an external search for a replacement, the company decided the best candidate was the CFO, Elliott Rusanow, who joined Westfield Group in 1999 and became CFO of Scentre in 2019. Our discussions with Mr Rusanow indicate that he has a good understanding of the company and its operations. The search is now on for a replacement CFO.

Mr Leigh announced his retirement from the Board at the AGM in February. The Board has made two new appointments in Ms Ilana Atlas and Ms Catherine Brenner. These are discussed below.

This provides the Board with better gender diversity (44%), following the two male board directors appointed in the previous year. This brings the total number of board directors to 9, which plays into the company's succession planning – refer to resolution on Mr Schwartz.

**Summary**

| (As at FYE) | **2021** | **2020** | **2019** | **2018** | **2017** |
|---|---|---|---|---|---|
| NPAT ($m) | 888 | (3,732) | 1,180 | 2,287 | 4,218 |
| Funds from operations ($m) | 863 | 766 | 1,332 | 1,330 | 1,285 |
| Share price ($) | 3.16 | 2.78 | 3.83 | 3.90 | 4.19 |
| Dividend (cents) | 14.3 | 7.0 | 22.60 | 22.16 | 21.73 |
| Simple TSR (%) | 18.81 | (25.59) | 4.00 | (1.60) | (4.20) |
| EPS (cents) | 14.8 | 14.8 | 25.18 | 25.06 | 24.20 |
| CEO total remuneration, actual ($m) | 4.0 | 4.7 | 7.5 | 9.2 | 8.9 |

For FY21, the CEO's total actual remuneration was **42.95 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2021 data from the Australian Bureau of Statistics).

Note - For May 2021, the Full-time adult average weekly total earnings (annualised, original) was $93,444 (http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0, "Full-time adult average weekly total earnings".

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking, divided by the share price at the start of the year.)

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| **Item 2** | **Adoption of Remuneration Report** |
| **ASA Vote** | **For** |

**Summary of ASA Position**

A detailed discussion can be found in the Appendix.

After a significant strike against last year's remuneration plan the company has undertaken an overhaul of the remuneration framework. While there are a few items that fall outside the ASA's guidelines, overall the plan is much more reasonable and better aligned with shareholders' interests.

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| **Item 3** | **Re-election of Brian Schwartz as a Director** |
| **ASA Vote** | **For** |

**Summary of ASA Position**

Mr Schwartz originally joined Westfield in 2009 and came across to SCG as part of the reorganisation in 2014. Mr Schwartz and the ASA have different views on what this means for tenure. Our view is tenure commenced in 2009 and Mr Schwartz considers it to be from 2014.

However, our biggest concern is around succession planning when a company has both a long-serving Chair and a number of Board members who all commenced at a similar point in time (2014).

We were able to have a frank discussion with the Chair on this point in our meeting and it appears that significant succession planning has occurred within the organisation. The first component of this planning involves this year's orderly retirement of the CEO and associated movement at the senior level. The Board has also been expanded to a number that would usually be considered too large by the company, but this is with a view to changing Chairs of Committees and providing resources to allow for further succession.

As such, it is important for the stability of the company that the Board is guided steadily through this ongoing transition.

Consequently, we will be voting all undirected proxies for the re-election of the Chair as a director.

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| **Item 4** | **Re-election of Michael Ihlein as a Director** |
| **ASA Vote** | **For** |

**Summary of ASA Position**

Mr Ihlein joined the Board in 2014 and brings finance, retail and CEO skills to the Board. He has chaired the Audit and Risk Committee for several years. Good performance in Audit and risk is often characterised by a lack of issues, which has been the case with this company.

Accordingly, we will be voting all undirected proxies in favour of Mr Ihlein.

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| **Item 5** | **Election of Ilana Atlas as a Director** |
| **ASA Vote** | **For** |

**Summary of ASA Position**

Ms Atlas has a background in finance, legal and senior management and has held Board and Chair positions in ASX200 companies with breadth across energy, banking and retail.

We consider her to have the skills and experience necessary to be an active contributor on this Board and will be voting all undirected proxies in favour of this resolution.

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| **Item 6** | **Election of Catherine Brenner as a Director** |
| **ASA Vote** | **Undecided** |

**Summary of ASA Position**

Ms Brenner was a Board member and then Chair of AMP Limited when the most serious revelations of inappropriate corporate behaviour were aired at the Financial Services Royal Commission.

The ASA position is "If a chair or CEO of a company included in the S&P/ASX200 index has been demonstrably responsible for key decisions which have led to poor performance over a sustained period, ASA will oppose the chair's re-election at that company. Further ASA will oppose the chair and/or the CEO's election /re-election at any other un-related companies in the future."

We consider the entire AMP board "failed to act with the clarity and purpose we expect" during the period leading up to Brenner's resignation. Ms Brenner joined as a director in 2010 and chaired the Board from June 2016. We are aware that APRA have indicated that Ms Brenner has done nothing wrong. We would like to hear from Ms Brenner regarding her consideration of her accountability in the AMP saga and in retrospect what she has learned from the experience before we finally decide on our voting preference. We will be asking a question to this effect at the AGM.

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| **Item 7** | **Approval of STVR/LTVR grant to CEO/Managing Director Peter Allen** |
| **ASA Vote** | **For** |

**Summary of ASA Position**

The STVR is paid 30% as performance rights. Mr Allen achieved 65% of maximum opportunity this year. These will vest at the end of 2024 (189,991 rights).

The LTVR will be pro-rated for FY22 according to the period he remains as Managing director. These will be tested and vest at the end of the performance period in 2024 (755,090 rights).

A total of 945,081 rights.

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| **Item 8** | **Spill motion (contingent resolution)** |
| **ASA Vote** | **Against** |

**Summary of ASA Position**

It is unlikely that the remuneration plan will receive a second strike given the work the company has done in consulting with major shareholders and the changes that have been made.

If the remuneration plan were to receive a second strike, voting to spill the Board would seem an extreme reaction given the Board's willingness to adjust and interact, and the considerable work done by Mr Harmos and his Committee to date.

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## Appendix 1
## Remuneration framework detail

The framework for the current CEO's remuneration is identified below.

| CEO rem. Framework for FY21 | Target* $m | % of Total | Max. Opportunity $m | % of Total |
|---|---|---|---|---|
| Fixed Remuneration | | | 2.0 | 22% |
| STI - Cash | | | 2.1 | 24% |
| STI - Equity | | | 0.9 | 10% |
| LTI | | | 3.9 | 44% |
| Total | | | 8.9 | 100% |

Details of the remuneration plan are well set out in the explanatory notes to the notice of meeting.

The company does not believe in target remuneration, rather they prefer KMP to aim at "shooting the lights out" and therefore only set maximum remuneration.

The company clearly discloses the actual remuneration provided to the CEO and CFO and uses face value to calculate performance rights.

The company doesn't pay dividends on rights, but does calculate the dividend amounts accrued when they vest and pays this in cash upon vesting (rather than the previous practice of estimating the dividends and then adjusting for this in the allocation).

The company has considered feedback from investors and made a number of changes to the LTVR section of their remuneration structure. There have been no changes to the Fixed or STVR structures. While the ASA prefers that more of the STVR be delivered in equity than cash, the company has indicated this is unlikely to change in the next few years while the current plan beds down. However, the company has improved its disclosure and reporting around the metrics used and achieved for the STVR and this gives greater comfort.

The area that the ASA had significant issues with last year, LTVR, is the area that has seen a significant overhaul this year. Further change will occur with the change in CEO, as the company will take the opportunity to adjust the balance at the change. This is discussed further below.

The greatest issue for the ASA was the introduction of a (long-requested) TSR at a time that provided greater advantage to management than shareholders, given the share price being at an historic low. We cannot change the introduction timing. This issue is tempered by the TSR being a relative TSR. The other issues we had with the TSR were:

- vesting measurement being over an annual period
- allowing vesting to occur for below index performance
- the relatively low level above index for maximum vesting to occur.
- and the ability to lift vesting to 125% for outperformance.

The changes that have been made are for a three-year performance period and to adjust the vesting scale so that no vesting occurs for below index performance and maximum is not at 6% above the index. Maximum vesting is capped at 100%.

ROCE has been moved to a three-year (instead of annual) performance period and represents 60% of LTVR, up from 50% previously.

The proportion for Board strategic measures (another ASA issue last year) has been reduced from 20% weight to 10% and the strategic measurements have now been disclosed.

This is seen as a great improvement on the previous plan. While there are still ways that the ASA would consider the plan could be improved, these are minor in the scheme of things and on balance there has been an overall improvement, despite the unfortunate timing of the TSR introduction.

New CEO – the Board has indicated that they have taken the opportunity of a change in CEO to adjust the balance of the CEO's remuneration structure. There will be a reduction to fixed, STVR will be 130% of fixed and LTVR will be 175% of fixed, but this will include the 25% overperformance from the previous structure.